

DEVELOPING YOUR GRAIN MARKETING PLAN

**Reasons Farmers Don't
What is a Plan?
Acceptable and Expected Prices
Developing the Plan
Developing the Strategies**

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REASONS FARMERS DON'T DEVELOP MARKETING PLANS

1. Random Price Fluctuation

Convinced no way to deal with problem

2. Not Understanding the Pricing Problem

It is speculation

Price too low -or- Miss good price

3. Not Understand Marketing Alternatives

Hedge - Options - Basis Contract

4. Inflexibility

\$8 beans regardless

Opposite - not knowing what you want

Vague decisions - but no action

5. Lack of Discipline

Recognition vs. pulling trigger

Greed vs. fear

WHAT IS A MARKETING PLAN?

Written Course of Action

Intend to Follow

To Price Commodities

At Time Offering Maximum Profit

Given Information Available

ACCEPTABLE AND EXPECTED PRICES

If You Don't Know Where You Are Going

**Any Road Will Get You There
And
You Won't Know When You Get There**

1. Select Sources of Information

**Action based on current information
Forecast only good until new information
Price expectation needed for execution
Expectation is fluid and process**

2. Acceptable Price

**Regardless of expected price
Depends on objectives
Day-to-day variability
Flexibility --- Profitability
Timing --- Cash Flow
Forecasted price may not reach acceptable**

DEVELOPING THE PLAN

1. Different Than "Strategy"

2. Written Goals and Pricing Objective

Financial needs

Price forecast

3. Strategy is a Road Map

Chosen alternative to get there

4. Plans Need to be Changed

New information

Maybe too optimistic/pessimistic

Strategies no longer applicable

5. Calculate Acceptable Prices

Know financial condition

Compare to benchmarks

6. How Much Risk?

**D/A ratio $\geq 40\%$ -- minimize risk
-- best interest of farm**

D/A $\leq 20\%$ -- net 6% return

7. Understand Marketing Ability

**Time better spent doing something else
Skills can be developed
Can hire marketing**

8. How Much Time to Devote

**What is available?
Hire labor to release time?**

9. Determine Status of Farm

**Plan based on where you want to go
Plan based on what the farm needs**

DEVELOPING STRATEGIES

1. Marketing Period is Long

Begins with production plan

Ends with end of storage season

About 24 months

2. Strategies Depend on Plan

Survival

Take risk

3. Want to Minimize Risk or Speculation

Accept average price

Sell a little each month for 24 months

Has a lot of merit

Average price offered > price received

4. Want Price above average

Willing to accept more risk

Develop higher threshold to 'trigger' sale

5. Determine Price Threshold

Minimum -- out-of-pocket costs
Short run survival

Longer run

Cover fixed costs
No profit but can continue

Pre-determined profit

% of total cost
Flat rate per unit

Threshold may change with information

6. Decision Calendar Needed?

Dates for pricing decision
Dates for % of crop

7. Seasonality of pricing related to other decision

Fall

What, where, how much to plant
Maybe no pricing decision

Winter

Critical pricing period
Final production report
Stocks report
Re-evaluate old crop supply/demand
New crop expectations emerging
Fundamentals

Spring

April stocks report
Weather problems

Summer

Critical pricing period
Weather takes over
August first "official" estimate
Pre-determined % before harvest

8. Determine Grain Marketing Alternative

Direction of "futures"

Direction of "basis"

9. Be Flexible

Correct mistakes

Be careful of the big mistake

**Knowing your decision is correct
and
the market is wrong**

SUMMARY

**Be disciplined
but
don't rule out flexibility**

When threshold reached -- more risk?

Accept your decision

Don't second-guess yourself

Smile on way to bank

Learn from errors

Keep good records

Evaluate your plan